

OVERVIEW OF STATE ECONOMY AND GOVERNMENT

Introduction

California's economy is the largest among the 50 states and one of the largest in the world. This diversified economy has major components in agriculture, manufacturing, high technology, trade, entertainment, tourism, construction and services. Total State gross domestic product of about \$890 billion in 1995 was larger than all but six nations in the world.

After suffering through a severe recession, California's economy has been on a steady recovery since the start of 1994. Employment has grown by over 500,000 in 1994 and 1995, and the prerecession level of total employment is expected to be matched by early 1996. The strongest growth has been in export-related industries, business services, electronics, entertainment and tourism, all of which have offset the recession-related losses which were heaviest in aerospace and defense-related industries (which accounted for two-thirds of the job losses), finance and insurance. Residential housing construction, with new permits for under 100,000 annual new units issued in 1994 and 1995, is weaker than in previous recoveries, but has been growing slowly since 1993.

Population and Labor Force

The State's July 1, 1995 population of 32.1 million represented over 12 percent of the total United States population. The following table shows California's population data for 1980 and 1990 through 1995.

Population, 1980 and 1990-95

<u>Year</u>	<u>California Population^(a)</u>	<u>% Increase Over Preceding Period</u>	<u>United States Population^(a)</u>	<u>% Increase Over Preceding Period</u>	<u>California as % of United States</u>
1980	23,782,000	18.7 ^(b)	227,225,000	11.4 ^(b)	10.5
1990	29,944,000	25.9 ^(b)	249,403,000	9.8 ^(b)	12.0
1991	30,565,000	2.1	252,138,000	1.1	12.1
1992	31,188,000	2.0	255,039,000	1.2	12.2
1993	31,517,000	1.1	257,800,000	1.1	12.2
1994	31,790,000	0.9	260,350,000	1.0	12.2
1995	32,063,000	0.9	262,755,000	0.9	12.2

^(a)Population as of July 1.

^(b)Increase over preceding decade.

SOURCE: U.S. Department of Commerce, Bureau of the Census; State of California, Department of Finance.

California's population is concentrated in metropolitan areas. As of the April 1, 1990 census, 96 percent resided in the 23 Metropolitan Statistical Areas in the State. As of July 1,

1995, the 5-county Los Angeles area accounted for 49 percent of the State's population, with 15.6 million residents, and the 10-county San Francisco Bay Area represented 21 percent, with a population of 6.6 million.

California enjoys a large and diverse labor force. The following table presents civilian labor force data for the resident population, age 16 and over, for the years 1989 to 1995.

Labor Force 1989-95

<u>Year</u>	<u>Labor Force Trends (thousands)</u>			<u>Unemployment Rate</u>	
	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>California</u>	<u>United States</u>
1989	14,517	13,780	737	5.1	5.3
1990	15,193	14,319	874	5.8	5.6
1991	15,176	14,004	1,172	7.7	6.8
1992	15,404	13,973	1,431	9.3	7.5
1993	15,359	13,918	1,441	9.4	6.9
1994	15,462	14,133	1,329	8.6	6.1
1995	15,416	14,206	1,210	7.8	5.6

SOURCE: State of California, Employment Development Department.

Employment, Income and Retail Sales

California's employment distribution among nonagricultural industries is fairly similar to the distribution nationally. The following table shows California's nonagricultural employment distribution and growth from 1980 to 1990 and from 1990 to 1995.

Payroll Employment By Major Sector 1980, 1990 and 1995

<u>Industry Sector</u>	<u>Employment (thousands)</u>			<u>% Distribution of Employment</u>		
	<u>1980</u>	<u>1990</u>	<u>1995</u>	<u>1980</u>	<u>1990</u>	<u>1995</u>
Mining	44	39	30	0.4	0.3	0.2
Construction	428	605	486	4.3	4.8	3.9
Manufacturing						
Nondurable goods	639	721	704	6.5	5.7	5.7
High Technology	615	686	476	6.2	5.4	3.8
Other Durable goods	764	690	612	7.8	5.4	4.9
Transportation and Utilities	546	624	628	5.5	4.9	5.0
Wholesale and Retail Trade	2,267	3,002	2,935	23.0	23.7	23.6
Finance, Insurance and Real Estate	623	825	733	6.3	6.5	5.9
Services	2,159	3,395	3,734	21.9	26.8	30.0
Government						

	Employment (thousands)			% Distribution of Employment		
Federal	334	362	314	3.4	2.9	2.5
State and Local	<u>1,430</u>	<u>1,713</u>	<u>1,787</u>	<u>14.5</u>	<u>13.5</u>	<u>14.4</u>
TOTAL						
NONAGRICULTURAL	<u>9,849</u>	<u>12,662</u>	<u>12,439</u>	<u>100</u>	<u>100</u>	<u>100</u>

SOURCE: State of California, Employment Development Department and State of California, Department of Finance.

Employment Trends, 1982 and 1995 By Principal Manufacturing Industries

<u>Industry</u>	<u>Employment</u>		<u>% Change 1982-95</u>
	<u>(thousands)</u>		
	<u>1982</u>	<u>1995</u>	
Transportation equipment	266.3	164.0	(38.4)
Electric and electronic equipment	358.0	225.5	(37.0)
Instruments and related products	102.4	166.5	62.6
Industrial machinery	227.6	197.3	(13.3)
Food and kindred products	182.5	173.3	(5.0)
Printing and publishing	124.5	150.2	20.6
Apparel	102.4	152.6	49.0
Fabricated metal products	138.8	116.9	(15.8)
Chemicals and allied products	65.7	70.0	6.5
Rubber and misc. plastic products	61.2	72.6	18.6
Lumber and wood products	46.3	50.7	9.5
Furniture and fixtures	49.0	46.9	(4.3)
Stone, clay and glass products	50.4	43.6	(13.5)
Paper and allied products	37.3	39.6	6.2
Miscellaneous	43.2	42.0	(2.8)
Primary metal products	47.6	33.4	(29.8)
Petroleum and coal products	31.7	20.4	(35.6)
Textile mill products	12.4	18.6	50.0
Leather and leather products	10.5	6.7	(36.2)
All manufacturing	1,957.7	1,790.8	(8.5)

SOURCE: State of California, Department of Finance, and State of California, Employment Development Department.

The following tables show California's total and per capita income patterns for selected years.

Total Personal Income, 1980, 1990-95

<u>Year</u>	<u>California</u>		<u>United States</u>		<u>California</u>
	<u>Millions</u>	<u>% Change</u>	<u>Billions</u>	<u>% Change</u>	<u>% of U.S.</u>
1980	\$277,967	-	\$2,259.0	-	12.3
1990	617,679	7.7*	4,655.4	6.6*	13.3
1991	634,990	2.8	4,841.1	4.0	13.1
1992	669,039	5.4	5,137.9	6.1	13.0
1993	683,449	2.2	5,364.3	4.4	12.7
1994	702,568	2.8	5,649.0	5.3	12.4
1995 ¹	748,434	6.5	N.A.	-	-

¹ Estimated by the State of California, Department of Finance.

*Change from prior year.

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

Per Capita Personal Income, 1980 and 1990-95

<u>Year</u>	<u>California</u>	<u>% Change</u>	<u>United States</u>	<u>% Change</u>	California % of <u>U.S.</u>
1980	\$11,792	-	\$10,029	-	117.6
1990	21,287	5.7*	19,142	5.6*	112.1
1991	21,411	0.6	19,636	2.6	109.0
1992	22,109	3.3	20,581	4.8	107.4
1993	22,356	1.1	21,224	3.1	105.3
1994	22,778	1.9	22,047	3.9	103.3
1995	24,073	5.7	23,208	5.3	103.7

*Change from prior year

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

According to the U.S. Department of Commerce, California accounted for 10.9 percent of all retail trade in the nation in 1995. The following table shows the retail sales of California and of the United States and total taxable sales for California.

Retail Sales, 1980 and 1990-95

	Total Retail Sales				Taxable Sales	
	<u>California</u>	<u>Percent Change</u>	<u>United States</u>	<u>Percent Change</u>	<u>California</u>	<u>Percent Change</u>
1980	\$112.5	--	\$ 957.4	--	\$142.8	--
1990	237.4	5.3	1,844.6	4.9	281.8	3.6
1991	231.0	(2.7)	1,855.9	0.6	270.8 ^(a)	(3.9)
1992	231.5	0.2	1,951.6	5.2	272.4 ^(b)	0.6
1993	232.7	0.5	2,075.1	6.3	272.1	(0.1)
1994	246.3	5.9	2,231.2	7.5	286.0	5.1
1995	256.0	3.9	2,340.8	4.9	300.7	5.1

^(a)1991 Taxable Sales includes base expansion. Estimated percent change on a comparable basis is -5.0.

^(b)1992 Taxable Sales includes base expansion. Estimated percent change on a comparable basis is -0.5.

SOURCE: Retail sales from U.S. Bureau of Census. Taxable sales from the State of California, Board of Equalization. Estimates from State of California, Department of Finance.

Organization of State Government

The State Constitution provides for three separate branches of government: the legislative, the judicial and the executive. The Constitution guarantees the electorate the right to make basic decisions, including amendments to the Constitution and local government charters. In addition, the State voters may directly influence State government through the initiative, referendum and recall processes.

California's Legislature consists of a forty-member Senate and an eighty-member

Assembly. Assembly members are elected for two-year terms and Senators are elected for four-year terms. Assembly members are limited to three terms in office, and Senators to two terms, following 1990. The Legislature meets almost year round for a two-year term. The Legislature employs the Legislative Analyst, who provides reports on State finances, among other subjects. The Bureau of State Audits, headed by the State Auditor, an independent office since 1993, has annually issued an auditor's report based on an examination of the General Purpose Financial Statements of the State Controller, in accordance with generally accepted accounting principles.

The Governor is the chief executive officer of the State and is elected for a four-year term. The Governor presents the annual budget and traditionally presents an annual package of bills constituting a legislative program. In addition to the Governor, State law provides for seven other statewide elected officials in the executive branch. The current elected statewide officials, their party affiliation and the dates on which they were first elected, are as follows:

<u>Office</u>	<u>Name</u>	<u>Party Affiliation</u>	<u>First Elected</u>
Governor	Pete Wilson	Republican	1990
Lieutenant Governor	Gray Davis	Democrat	1994
Treasurer	Matt Fong	Republican	1994
Secretary of State	Bill Jones	Republican	1994
Attorney General	Daniel E. Lungren	Republican	1990
Controller	Kathleen Connell	Democrat	1994
Superintendent of Public Instruction	Delaine Eastin	Democrat	1994
Insurance Commissioner	Chuck Quackenbush	Republican	1994

The current term for each office expires in January 1999. Persons elected to statewide offices are limited to two terms in office.

The executive branch is principally administered through twelve major agencies and departments: Business, Transportation and Housing Agency, Child Development and Education Agency, Environmental Protection Agency, Department of Finance, Department of Food and Agriculture, Health and Welfare Agency, Department of Industrial Relations, Resources Agency, State and Consumer Services Agency, Department of Veterans Affairs, Trade and Commerce Agency and Youth and Adult Correctional Agency. In addition, some State programs come under boards and commissions, such as The Regents of the University of California, Public Utilities Commission, Franchise Tax Board and California Transportation Commission, which have authority over many functions of State government with the power to establish policy and promulgate regulations. The appointment of members of boards and commissions is usually shared by the Legislature and the Governor, and often includes ex officio members.

California has a comprehensive system of public higher education, comprising three sectors. The highest level is the University of California, which provides undergraduate, graduate

and professional degrees to about 150,000 full-time equivalent students at nine campuses. The California State University system provides undergraduate and graduate degrees to about 250,000 full-time equivalent students at 22 campuses. The third sector consists of over 100 community colleges which provide associate degrees and continuing education to over 870,000 full-time equivalent students.

Employee Relations

As of January 1996, the State work force represented approximately 274,000 personnel years. Of the total, approximately 90,000 personnel years represented employees of institutions of higher education. Civil service employees who are subject to collective bargaining number represented approximately 150,000 personnel years. The largest of the 21 bargaining units is the California State Employee's Association ("CSEA"), representing approximately 55 percent of those employees subject to collective bargaining.

The State Employer-Employee Relations Act, enacted in 1977, provides that State employees, defined as any civil service employee of the State and teachers under the jurisdiction of the Department of Education or the Superintendent of Public Instruction, and excluding certain other categories, have a right to form, join and participate in the activities of employee organizations for the purpose of representation on all matters of employer-employee relations. Law enforcement employees have the right to be represented separately from other employees. The chosen employee organization has the right to represent its members, except that once an employee organization is recognized as the exclusive representative of a bargaining unit, only that organization may represent employees in that unit.

The scope of representation is limited to wages, hours and other terms and conditions of employment. Representatives of the Governor are required in this connection to meet and confer in good faith and endeavor to reach agreement with the employee organization, and, if agreement is reached, to prepare a memorandum of understanding and present it to the Legislature for determination. The Governor and the recognized employee organization are authorized to agree mutually on the appointment of a mediator for the purpose of settling any disputes between the parties. Alternatively, either party could request the Public Employment Relations Board to appoint a mediator, in which case the costs of mediation would be paid by the Public Employment Relations Board.

Contracts between the State and the various employee bargaining units expire and are renegotiated periodically. To date, the State has reached agreement with one of the 21 collective bargaining units (the California Association of Highway Patrolmen) to replace the agreements that expired June 30, 1995. Negotiations continue between the State and the remaining 20 collective bargaining units. The State has not experienced any major work stoppage in the last 10 years.

Employees' Retirement Systems

Major retirement benefit programs administered by the State are described below and in Note 24 to the State's Audited Financial Statements, in Exhibit 1 to Appendix A below. The information below has been provided by the retirement systems.

The Public Employees' Retirement System - The Public Employees' Retirement System ("PERS") was created by the Public Employees' Retirement Law. The Board of Administration of PERS administers the Public Employees' Retirement Fund (the "Fund") and five other benefit programs. The Fund is a pooling of assets of multiple defined benefit retirement plans. The benefits paid from these plans are based on members' years of service, age and final compensation. In addition, the plans provide disability and death benefits for eligible members and their beneficiaries.

PERS calculates two kinds of unfunded liabilities. The first is developed by the plan's funding method and is used in the determination of the employer contribution rates. The liabilities include benefits for all future service and the ledger assets are carried at actuarial (smoothed market) value. Under this method, the unfunded actuarial liability of PERS as of June 30, 1994 was \$2.7 billion. The State had a \$3.4 billion unfunded liability, partially offset by an overfunding in the amount of \$0.7 billion attributable to other PERS employers. The second is required by the Governmental Accounting Standards Board ("GASB") and represents a plan's fiscal soundness for use in external financial reporting. In this method, the liabilities include the benefits of employees' service to date but projected for future salary raises. Assets are carried at actuarial (smoothed market) value. Under this second method, the actuarial balance sheet of PERS on June 30, 1994 (the last date for which such calculation was made) reflected an overfunding in the amount of \$4.4 billion. The State had a \$0.9 billion unfunded liability, offset by an overfunding in the amount of \$5.3 billion attributable to other PERS employers.

Since 1931, the Legislature has given PERS the responsibility of administering five additional benefit programs: The Legislators' Retirement System (established in 1947); The Social Security Program for California Public Employees (established in 1951, administered in 1955); The PERS Health Benefits Program (established in 1961); The Judges' Retirement System (established in 1937, administered since July 1, 1979); and The Volunteer Firefighters Length of Service Award System (established in 1980).

PERS has assets with a market value in excess of \$99.5 billion as of June 30, 1996, an increase of \$10.5 billion from June 30, 1995.

State Teachers' Retirement System - The State Teachers' Retirement System ("STRS") operates under the State Teachers' Retirement Law. STRS includes public school teachers in the State from pre-school through grade fourteen and certain other employees of the public school system. Membership is mandatory for all certificated employees meeting the eligibility requirements who are not members of PERS.

In general, STRS provides defined retirement benefits based on members' final compensation, age and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members.

The most recent independent actuarial valuation of STRS was as of June 30, 1995. The results of that valuation showed a normal cost rate of 16.07 percent of payroll, a drop of 1.10 percent of payroll from the previous valuation, and an accrued unfunded actuarial obligation of \$8.2 billion.

The member contributions and the employer contributions paid by local school districts total 16.00 percent of payroll, leaving an annual deficit in normal cost contributions of 0.07 percent of payroll. While the State is not the employer, the legislature sets the employer contribution rates. In addition, the State makes an annual General Fund appropriation to the Teachers' Retirement Fund in an amount adequate to fund the normal cost deficit and amortize the accrued unfunded obligation over the next 18 years. As a result of the settlement of a lawsuit over prior deficiencies in the State appropriation, the amount required by law is now transferred automatically without being subject to a Budget Act appropriation.

STRS has assets with a market value in excess of \$55.8 billion as of June 30, 1995, an increase of \$8.3 billion from June 30, 1994. STRS has a positive cash flow which is expected to continue through the next few decades and the State will not have to make additional contributions for the purpose of making benefit payments.